
STATE OF ILLINOIS
ILLINOIS COMMERCE COMMISSION

COMMONWEALTH EDISON COMPANY	:	
	:	
Proposed general increase in electric rates,	:	No. 05-0597
general restructuring of rates, price unbundling	:	
of bundled service rates, and revision of other	:	
terms and conditions of service	:	
	:	
	:	

Direct Testimony of
David W. McClanahan
BDL Enterprises, Inc.

on behalf of

the Building Owners and Managers Association of Chicago

1 **INTRODUCTION**

2 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS?**

3 A. My name is David W. McClanahan. I am President of BDL Enterprises, Inc.,
4 a consulting firm which specializes in electric utility cost-of-service issues.
5 My business address is 5521 Clinchfield Trail, Norcross, Ga.

6 **Q. ON WHOSE BEHALF ARE YOU TESTIFYING IN THIS**
7 **PROCEEDING?**

8 A. I am testifying on behalf of the Building Owners and Managers Association of
9 Chicago ("BOMA").

10 **Q WERE YOU PREVIOUSLY EMPLOYED BY SOUTHERN COMPANY**
11 **SERVICES, INC.?**

12 A. Yes. I was employed by Southern Company Services, Inc. ("Southern
13 Company Services") from December 1970 until my retirement on January 31,
14 2001.

15 **Q. PLEASE DESCRIBE SOUTHERN COMPANY SERVICES.**

16 A. Southern Company Services is the service company for the electric utility
17 operating companies in The Southern Company public utility holding
18 company system. These companies are Alabama Power Company, Georgia
19 Power Company, Gulf Power Company, Mississippi Power Company and
20 Savannah Electric and Power Company. Southern Company Services' major
21 function is to provide engineering and advisory services for the utility
22 operating companies.

23 **Q. WHAT WERE YOUR RESPONSIBILITIES WHILE YOU WERE**
24 **EMPLOYED BY SOUTHERN COMPANY SERVICES?**

25 A. I joined Southern Company Services in December 1970 as an Economic
26 Analyst, and advanced through various positions to that of Manager, Costing
27 Analysis, in the Marketing Services organization. During that time I was
28 involved in economic research, embedded cost-of-service studies, cost
29 analysis, load research, contracts, and many other rate-related areas. As
30 Manager, Costing Analysis, I was directly responsible for all costing analyses
31 and economic evaluation work performed in the cost-of-service area on behalf
32 of the utility operating companies of the Southern Company electric system. I
33 directed and approved numerous cost-of-service studies on behalf of the utility
34 operating companies.

35 **Q. WHAT IS YOUR EDUCATIONAL BACKGROUND?**

36 A. In 1961, I received a Bachelor of Science degree in Metallurgical Engineering
37 from the University of Idaho, Moscow, Idaho. From 1961 to 1969, I
38 continued my education at the University of Alabama extension center located
39 in Huntsville, Alabama, completing graduate level engineering work as well
40 as basic business courses. In 1969, I entered the Graduate School of Business
41 at the University of Alabama, Tuscaloosa, Alabama, and subsequently
42 received a M.B.A. in August 1970. During my tenure with Southern
43 Company Services I continued to broaden my education through active
44 participation in various company/industry sponsored courses and seminars in
45 public utility economics and regulation.

46 **Q. HAVE YOU TESTIFIED PREVIOUSLY BEFORE STATE AND**
47 **FEDERAL UTILITY REGULATORY COMMISSIONS?**

48 A. Yes. I have testified numerous times before the Alabama Public Service
49 Commission, the Georgia Public Service Commission, and the Florida Public
50 Service Commission on behalf of all of the Southern Company utility
51 operating companies regulated by these commissions. I also have testified
52 before the Federal Energy Regulatory Commission ("FERC") on behalf of
53 Alabama Power Company, Georgia Power Company and Mississippi Power
54 Company.

55 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS**
56 **PROCEEDING?**

57 A. The purpose of my testimony is to present my analysis of the direct testimony
58 and exhibits filed by Commonwealth Edison Company ("ComEd") in support
59 of ComEd's proposed 20.15% delivery services rate increase and ComEd's
60 proposed allocation of this increase to ComEd's customer classes.

61 **Q. PLEASE SUMMARIZE YOUR CONCLUSIONS.**

62 A. Based on my analysis, I conclude that the evidence presented by ComEd does
63 not support ComEd's proposed delivery services rate increase because ComEd
64 has not sufficiently supported the amount of operating revenues allocated to
65 delivery services in the test year 2004. Additionally, I conclude that ComEd
66 has not justified its consolidation of its nine nonresidential delivery services
67 customer classes segmented by peak demand into only four classes and that
68 ComEd's consolidation of these customer classes will result in massive rate

69 shock for certain customers such as those customers who have peak demands
70 of over 10 megawatts (“MWs”). As a result, ComEd ideally should retain its
71 existing delivery services classes and at a minimum should keep a separate
72 customer class for over 10 MW customers. I also conclude that ComEd
73 should not be allowed to eliminate its bundled rates for electric space heating
74 customers unless it exempts electric space heating customers from
75 distribution facilities charges on electricity used for space heating in ComEd’s
76 delivery services tariffs. This exemption is necessary to treat these customers
77 fairly and avoid massive rate shock for these customers. Finally, I conclude
78 that ComEd’s embedded cost-of-service study did not correctly determine
79 customer-related costs and did not use proper weighting factors to derive
80 certain allocators which are used to allocate costs to ComEd’s customer
81 classes.

82 **PROPOSED RATE INCREASE**

83 **Q. HAVE YOU REVIEWED THE DOCUMENTATION THE COMPANY**
84 **HAS SUBMITTED FOR THE \$317,860,000 INCREASE IN RETAIL**
85 **DELIVERY SERVICE RATES IT HAS REQUESTED IN THIS**
86 **PROCEEDING?**

87 A. Yes.

88 **Q. DO YOU BELIEVE THIS INCREASE IS JUSTIFIED?**

89 A. No. ComEd’s book and records reflect ComEd’s operating revenues (and
90 expenses) at the total company level. To determine how much operating
91 revenue is attributable to delivery services, ComEd must allocate its total

company operating revenues between delivery services and non-delivery services (“non-DST”) operating revenues. To the extent that ComEd allocates more operating revenues to the non-DST segment, it lowers ComEd’s delivery services revenues in that year and increases ComEd’s need for a delivery service rate increase. My review of ComEd’s testimony and data responses suggests that ComEd has not justified the \$3,883,066 in operating revenues for the test year 2004. (ComEd Ex. 5.1, Appendix A, Schedule A-5, page 3 of 4). I have made this conclusion because ComEd previously allocated operating revenues of \$3,569,116 to non-DST operating revenues for 2004 in Commonwealth Edison Company’s April 29, 2005 report under Section 4(a)(ii) of the “Agreement Regarding Various Matters Involving Or Affecting Rates for Electric Service Offered by Commonwealth Edison Company dated March 3, 2003. (See Commonwealth Edison Company Jurisdictional Allocation Summary for Operating Statement Items for the year 2004 from ComEd’s April 29, 2005 report, which is attached to my direct testimony as BOMA Ex. 2.1). Although BOMA submitted a data request to ComEd asking ComEd to justify the reason for the change in 2004 non-DST operating revenues from \$3,569,116 to \$3,883,066, ComEd did not respond with an explanation. (See ComEd’s Responses to BOMA Data Requests 1.3, 1.2 and 1.1 attached to my direct testimony as BOMA Ex. 2.2).

Q. WHAT IS THE EFFECT OF COMED’S CHANGE IN ITS NON-DST OPERATING REVENUES FOR 2004 ON COMED’S PROPOSED DELIVERY SERVICES RATE INCREASE?

115 A. As shown on BOMA Exhibit 2.3 attached to my direct testimony, this massive
116 unexplained increase in ComEd's non-DST operating revenues actually is the
117 cause of virtually the entire delivery services rate increase being proposed by
118 ComEd. ComEd's unexplained increase in operating revenues results in a
119 reduction of ComEd's allocated delivery services operating revenues from
120 \$1,891,636 to \$1,577,686 for the test year 2004. (BOMA Ex. 2.3). This
121 change results in ComEd's needing a \$318 million rate increase rather than
122 only a \$4 million rate increase to reach its proposed delivery services revenue
123 requirement. (See BOMA Ex. 2.3).

124 **PROPOSED CUSTOMER DELIVERY SERVICES CLASSES**

125 **Q. YOU ALSO CONCLUDED THAT COMED HAS NOT PROPERLY**
126 **JUSTIFIED ITS PROPOSED CUSTOMER DELIVERY SERVICES**
127 **CUSTOMER CLASSES. WHAT DELIVERY SERVICES CUSTOMER**
128 **CLASSES HAS COMED PROPOSED IN THIS PROCEEDING?**

129 A. ComEd's current delivery service rates for nonresidential customers have nine
130 customer classes which are segmented based on the peak electricity demand
131 of ComEd's customers. (ComEd Ex. 9.0 Corr., pg. 33, ln. 725). ComEd's
132 proposed nonresidential delivery service rates "consolidate" these nine
133 customer classes segmented by peak demand into only four customer classes.
134 (ComEd Ex. 9.0 Corr., pg. 35, ln. 752).

135 **Q. DID COMED EXPLAIN ITS REASONS FOR ITS PROPOSED**
136 **CONSOLIDATION OF DELIVERY SERVICES CUSTOMER**
137 **CLASSES?**

Yes. ComEd witness Paul Crumrine states in his direct testimony that there are two reasons for ComEd's proposal to substantially reduce the number of delivery services customer classes. (ComEd Ex. 9.0 Corr., pg. 38, ll. 810-811). The first reason stated by Mr. Crumrine is that the charges currently in effect for the classes that were combined are very similar, indicating that the costs of providing delivery services to these customers are very similar and do not justify the maintenance of separate delivery services classes. (ComEd Ex. 9.0 Corr., pg. 38, ll. 811-818). The second reason stated by ComEd witness Mr. Crumrine is that the current class separations will no longer be needed Post-2006 because Customer Transition Charges ("CTCs") will no longer be applicable at that time. (ComEd Ex. 9.0, pg. 38, ll. 816-818).

Q. DO YOU BELIEVE THAT THE CHARGES CURRENTLY IN EFFECT FOR THE CLASSES THAT WERE COMBINED ARE VERY SIMILAR?

A. No. Unfortunately, the statement that the delivery services charges currently in effect for the classes that were combined "are very similar" is simply not true. ComEd has proposed that all consumers with peak demand over 1 megawatt ("MW") be included in the Very Large Load customer class and that these customers all be charged distribution facilities charges of \$5.45/KW. (ComEd Ex. 10.9, pg. 1). Currently, over 1 MW customers are segmented into four different customer classes and are charged the following distribution facilities charges: 1-3 MW: \$4.45/KW; 3-6 MW: \$4.63/KW; 6-10 MW: \$4.47/KW; over 10 MW: \$2.34/KW. (Ill. C.C. No. 4, 1st Revised Sheet

Nos. 119.0-119.1). That is, under ComEd's proposal over 10 MW customers who are currently being charged \$2.34/KW are being grouped with under 10 MW customers who are currently being charged \$4.45-\$4.63/KW. (Ill. C.C. No. 4, 1st Revised Sheet Nos. 119.0-119.1). Therefore, ComEd's primary justification for consolidating all over 1 MW customers into the same customer class is flawed, i.e., charges currently in effect are not similar at all.

Q. MR. CRUMRINE ALSO ARGUES THAT COMBINING DELIVERY SERVICES CLASSES MAKES SENSE ON GROUNDS THAT, SINCE CURRENT RATES ARE SIMILAR, COSTS MUST ALSO BE SIMILAR AND THEREFORE DO NOT JUSTIFY THE MAINTENANCE OF SEPARATE DELIVERY CLASSES. DO YOU AGREE?

A. No. Obviously the rates are not similar, and the effect of the consolidation on charges for many consumers can be very significant. I find it very hard to believe that ComEd's proposed consolidation of customer classes is fair and equitable to ComEd's customers. In my opinion, it is unfair and inequitable to many customers, and could even be discriminatory.

Q. DID YOU DO ANY ANALYSIS OF THE IMPACT OF COMED'S PROPOSED ALLOCATION OF THE RATE INCREASE AMONG THE CONSOLIDATED CUSTOMER CLASSES PROPOSED BY COMED?

A. Yes. I have attached to my testimony as BOMA Exhibit 2.4 a hypothetical comparison of ComEd's proposed allocation of its increase among ComEd's

184 proposed delivery services customer classes. The rate increase varies
185 dramatically among customer classes and is particularly large (42.1%) for the
186 Very Large Load customer class (load greater than 1 MW). I would expect
187 ComEd's current delivery services rates to be cost based, which makes it
188 surprising to me that there is such a large variation in the amount of the
189 proposed rate increase for various customer classes. ComEd witness Mr.
190 Heintz states that he has presented ComEd's cost of service study in ComEd's
191 prior two delivery service rate cases, Dockets Nos. 99-0117 and 01-0423.
192 (ComEd Ex. 11.0, pg. 3, ll. 54-59). He testifies further that "the basic
193 functioning of the study submitted in this proceeding is not different from
194 ComEd's embedded cost of service studies as filed in Docket Nos. 99-0117
195 and 01-0423,..." (ComEd Ex. 11.0, pg. 6, ll. 11-113). Consequently, I would
196 have expected that proposed percentage rate increases would not vary
197 substantially across delivery classes. However, BOMA Exhibit 2.4 shows that
198 the increases do have dramatic variations.

199 **Q. ARE THERE ANY OTHER PROBLEMS CAUSED BY COMED'S**
200 **CONSOLIDATION OF ITS RATE CLASSES?**

201 A. In going from the current delivery service rate classes to ComEd's proposed
202 consolidated rate classes, you can be assured that individual customers will
203 experience significant changes in their total billing. In other words, rate
204 shock. The full magnitude of this problem is being masked by ComEd's
205 consolidation of its current rate classes into the proposed rate classes. A fairer
206 analysis would have been to conduct the cost of service study by the current

rate classes, and to conduct the study in such a fashion that the current rate classes could then be combined into the proposed rate classifications. Moreover, ComEd should provide the current and proposed billing charges to customers requesting this information so that the individual customers can determine the actual impact of the proposed charges on their bills.

Q WHAT DO YOU RECOMMEND THAT COMED DO REGARDING THE DESIGN OF ITS NONRESIDENTIAL DELIVERY SERVICES CUSTOMER CLASSES?

A. The best course would be for ComEd to retain its existing delivery service customer classes. At a minimum, ComEd should continue to have a separate delivery services rate class for over 10 MW customers. This is necessary to avoid the massive rate shock of a 133% increase in distribution facilities charges for these customers which occurs as a result of ComEd's proposed elimination of the over 10 MW class of customers. Additionally, ComEd should be required to show specifically why and how its cost of service for different sized customers has changed so dramatically from ComEd's last delivery services rate case. If ComEd cannot make such a showing, it should be required to allocate its rate increase among all delivery services customer classes on an equal percentage basis.

Q. DO YOU PROPOSE ANY OTHER CHANGES TO COMED'S PROPOSED RATE DESIGN?

A. Yes. As is fully discussed in the direct panel testimony of BOMA witnesses T.J. Brookover and Kristav Childress, ComEd's proposed rates will result in

rate shock to customers who heat their facilities with electricity. (BOMA Ex. 1.0, pg. 9, ll. 180-191). During my tenure at Southern Company, we attempted to avoid rate shock to particular customers caused by changes in rate design, especially when the size of the average rate increase was large. Here, the much higher rate shock for electric space heating customers as opposed to non-space heating customers is caused by ComEd's elimination of ComEd's special bundled rates for these customers. (BOMA Ex. 1.0, pp.10-11, ll. 220-227). Therefore, ComEd should not be allowed to eliminate these rates unless ComEd designs its delivery services rates to protect electricity space heating customers. To accomplish this objective, I endorse the proposal of Messrs. Childress and Brookover to exempt space heating customers from demand charges on electricity used for space heating customers in ComEd's delivery service tariffs. (BOMA Ex. 1.0, pg. 11, ll. 234-245).

COMED'S COST OF SERVICE STUDY

Q. SEVERAL COMED WITNESSES HAVE STATED THAT THE RATES FOR DELIVERY SERVICES PROPOSED IN THIS PROCEEDING ARE COST BASED. ARE COST-BASED RATES A GOOD OBJECTIVE?

A. Ideally rates based on a cost-of-service study are a desirable objective, provided that the rate changes necessary to achieve this objective avoid rate shock to particular classes of customers. When extreme rate changes are required to realize cost based rates, consideration should be given to gradual changes in rates.

253 **Q. HAVE YOU REVIEWED THE COST OF SERVICE INFORMATION**
254 **PRESENTED ON BEHALF OF COMED?**

255 A. Yes. I have reviewed the cost-of-service information presented by Mr.
256 Jerome P. Hill in ComEd Exhibit 5.0 Corrected and Mr. Alan C. Heintz in
257 ComEd Exhibit 11.0. Mr. Hill presents the cost-of-service information for the
258 entire company. Mr. Heintz then takes Mr. Hill's cost of service information
259 for retail delivery service and develops an embedded cost-of-service study.

260 **Q. DO YOU TAKE EXCEPTION TO ANY OF THE ALLOCATION**
261 **METHODS AND TECHNIQUES USED IN MR. HEINTZ'S**
262 **EMBEDDED COST OF SERVICE STUDY?**

263 A. Yes. Mr. Heintz's embedded cost-of-service study underestimated the costs
264 that are classified as customer related costs.

265 **Q. WHAT ARE CUSTOMER RELATED COSTS?**

266 A. Customer related costs are those costs driven by the fact that a customer is
267 simply requesting to be served (i.e., be "hooked up" to the electric system).
268 These costs include meter reading and billing. These costs also should
269 include a portion of the utility's plant related costs required to connect a
270 customer to the distribution system. However, in ComEd's embedded cost-of-
271 service study Mr. Heintz erroneously considers all Distribution Plant and its
272 associated costs to be demand related rather than classifying some of these
273 costs as customer related costs.

274 **Q. WHAT FERC ACCOUNTS SHOULD BE SCRUTINIZED WITH**
275 **RESPECT TO PROPER CLASSIFICATION OF CUSTOMER**
276 **COMPONENT COSTS?**

277 A. FERC Accounts 364-370 must be analyzed to properly apportion the overall
278 costs included in these accounts into those which are customer related and
279 those which are demand related.

280 **Q. DOES THE NATIONAL ASSOCIATION OF REGULATORY**
281 **UTILITY COMMISSIONERS (NARUC) ADVOCATE THE**
282 **ACCURATE ALLOCATION OF THESE FERC ACCOUNTS INTO**
283 **CUSTOMER AND DEMAND RELATED COSTS?**

284 A. Yes. NARUC's official guidebook, THE ELECTRIC UTILITY COST
285 ALLOCATION MANUAL offers clear instructions. The following is an
286 excerpt:

287 Distribution plant accounts 364 through 370 involve demand and
288 customer costs. The customer component of distribution facilities is
289 that portion of costs which varies with the number of customers. Thus,
290 the number of poles, conductors, transformers, services and meters are
291 directly related to the number of customers on the utility's system. As
292 shown in Table 6.1, each primary plant account can be separately
293 classified into a demand and customer component. Two methods are
294 used to determine the demand and customer components of
295 distribution facilities. They are, the minimum-size of facilities method
296 and the minimum-intercept cost (zero-intercept or positive-intercept
297 cost as applicable) of facilities.

298
299 (The Electric Utility Cost Allocation Manual, January 1992, p. 90, NARUC).

300 **Q. IN YOUR OPINION, IS IT NECESSARY TO CONSIDER THE**
301 **CUSTOMER COMPONENT OF THE COMPANY'S DISTRIBUTION**

**SYSTEM IN ORDER TO INSURE THE ACCURACY OF COMED'S
EMBEDDED COST-OF-SERVICE STUDY?**

A. Yes. The process of determining the proper amount of customer related costs is critical to the accurate classification of these costs and ultimately to the development of a cost based customer charge.

**Q. DO YOU HAVE ANY OTHER CONCERNS WITH RESPECT TO THE
COMPANY'S EMBEDDED COST-OF-SERVICE STUDY?**

A. Yes. I am very concerned with the weighting factors used to derive certain allocators (i.e., metering services, meter reading, billing, etc.) which are used to determine how costs are allocated to customer classes throughout ComEd's cost of service study. ComEd's weighting factors and the manner in which the weighting factors are used to derive the allocators are shown on BOMA Exhibit 2.5.

**Q. WHAT CONCERNS YOU ABOUT COMED'S WEIGHTING
FACTORS?**

A. The weighting factors should be very similar for nonresidential delivery service customers. However, as shown on BOMA Exhibit 2.5, the weighting factors used for five of the allocators are significantly different for the Small, Medium, Large, Very Large Load and High Voltage customer classes.

**Q. DOES COMED OFFER ANY EXPLANATION AS TO WHY THESE
WEIGHTING FACTORS ARE SO DIFFERENT?**

A. No.

324 **Q. IF THE WEIGHTING FACTORS WERE REVISED**
325 **APPROPRIATELY, WOULD THIS HAVE A SIGNIFICANT IMPACT**
326 **ON THE RESULTS OF COMED'S EMBEDDED COST-OF-SERVICE**
327 **STUDY?**

328 A. Yes. Allocation of over 20% of the Company's requested \$1,890,419,000
329 proposed rate revenue is influenced by the weighting of the allocators shown
330 in BOMA Exhibit 2.5. (ComEd Ex. 5.0 Corr., pg. 9, ll. 174-176). Therefore,
331 appropriate revision of these weighting factors would significantly impact the
332 results of the cost-of service study.

333 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

334 A. Yes.